

November 2011

TAX-FREE SAVINGS ACCOUNT

Starting in 2009, Canadians aged 18 and older can save up to \$5,000 every year in a tax-free savings accounts . In our **tax & business Alert** issue of the 2009 Federal Budget we describe in detail how the account works and the benefits for the taxpayer. Our newsletter can be found at www.levifca.com

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TAX & BUSINESS Alert

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Planning for 2011 can help reduce your taxes

Tax planning is a prudent and necessary procedure for both the individual and corporate taxpayers due to the complexities and constant changes in our income tax legislation. Although tax planning is something which should be considered throughout the year, towards year end it becomes more common to evaluate certain tax planning ideas which may result in a reduced or deferred tax burden.

Most tax planning transactions should be reviewed with your professional tax advisor as the proposals incorporated in this year's Federal and Provincial budgets may not necessarily be the same as when they ultimately become law. Further changes which may have occurred to previously available tax planning measures may have changed.

In this year end tax planning issue of tax & business Alert we present several items for your consideration.

CONTRIBUTE TO YOUR RRSP

If you haven't yet contributed to your RRSP for 2011, don't wait until the end of February 2012, contribute now. The earlier you contribute to your RRSP, within the allowable limits, the more quickly the capital to finance your retirement will grow, sheltered from tax.

Your maximum contribution for 2011 is 18% of income earned in 2010, principally from employment or a business, up to a maximum of \$22,450 (compared to \$22,000 in 2010). The maximum RRSP contribution for 2011 applies to earned income of \$124,722 in 2010. If you participate in a pension

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CLAIM THE \$750,000 CAPITAL GAINS DEDUCTION

Small business corporation shares and qualified farm property (including shares of a corporation and partnership interests) still qualify for the lifetime capital gains deduction of \$750,000 (\$500,000 for shares disposed of before March 19, 2007). Claiming this deduction often requires a good dose of planning and help from your tax advisor. If you are thinking about selling the assets that qualify for this deduction before the end of the year, consult your tax advisor as soon as possible.

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plan, you should keep the pension adjustment in mind — and the pension adjustment reversal, if applicable. To find out the exact amount that you can contribute, look at the “RRSP Deduction Limit Statement for 2011” section of your federal assessment notice for 2010.

Consider transferring securities which have an accrued gain to your RRSP and using capital losses during the year to shelter the gain. You will get an RRSP deduction equal to the fair market value of the property up to your contribution limit.

Plan Ahead for 2012

The RRSP limit is indexed in 2011. If you have your own corporation, have no other source of earned income, and are able to do so, pay yourself a salary of at least \$127,611 this year if you wish to ensure that you can contribute the maximum amount to your RRSP in 2011.

Unused Prior Year Contributions

If you contributed less than the maximum allowable amount to your RRSP in a previous year, and if you can afford it, use the unused RRSP contribution room

for 2011 by contributing an additional amount equal to the unused room.

The law allows you to contribute up to \$2,000 over the authorized maximum. Do not exceed this limit, because the penalty of 1% per month on excess contributions can add up fast, and the administrative formalities to recover over contributions are relatively complex.

Is your spouse younger than you?

If your spouse is younger than you and you anticipate that his or her retirement income will be less than yours, consider creating a spousal RRSP. You can then continue contributing to the spousal plan until your spouse turns 71, provided that you have unused contribution room.

USE YOUR CAPITAL LOSSES

Under the tax rules governing capital losses, you can use your 2011 capital losses to decrease the current year's taxes if you have realized at least an equal amount in capital gains. Many taxpayers also sell their investment losses before the end of the year once they have realized significant gains earlier in the year. But be careful! If, within the 30 days prior to or following the sale of an asset that resulted in a capital loss, you purchase an identical asset, the superficial loss rules prevent you from claiming a capital loss on an asset you clearly intended to continue holding. This rule also applies if your spouse or a company under your control purchases the identical asset.

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MATURING RRSP

An RRSP must be matured before December 31 of the year in which the annuitant turns age 71. Do not miss this legislated deadline. If you do, all accumulated funds in your RRSP will be included in your taxable income in the year following the year you turn 71. You will have no recourse for correcting this oversight. There are three main maturity options that apply to non-insurance-type RRSPs:

- Receive an annuity.
- Transfer the accumulated RRSP funds into a registered retirement income fund (RRIF) from which a periodic retirement income is received.
- Collapse the RRSP and receive a lump sum after paying the relevant tax.

NOTE: Monitor current proposals to delay the required maturity date of an RRSP currently proposed by the Quebec government.

CAPITAL GAINS DEDUCTION *(continued from page 1)*

If you have already claimed the \$100,000 personal capital gains deduction (abolished in 1994), you are entitled to a maximum deduction of only \$650,000. If you plan to use this deduction in 2011, check with your tax advisor to find out whether you have realized an allowable business investment loss (ABIL) in prior years or have cumulative net investment losses (CNILs) as at December 31, 2010, as these will be taken into account, and it is possible that you will not be able to claim the full deduction.

TAX-FREE SAVINGS ACCOUNT (TFSA)

The TFSA was introduced in Budget 2008. Since January 1, 2009, Canadian residents who are 18 years of age or older are eligible to contribute up to \$5,000 annually to a TFSA. The TFSA is a flexible, registered, general purpose account that allows Canadians to maximize their savings by earning tax-free investment income. Contributions to a TFSA are not tax-deductible, but investment income earned in a TFSA, as well as TFSA withdrawals, are tax-free. If you have not yet opened and contributed to a TFSA, now is the time to consider one.

STAGGER TAXATION OF CERTAIN CAPITAL GAINS

If you dispose of property on which you realize a capital gain, you can stagger the taxation of this gain over up to five years if you allow the purchaser to stagger the payment of the proceeds from the sale over at least a five year period as well. The term is increased to 10 years for the transfer of farm or fishing property, shares from a family farm or fishing corporation, or from a small business corporation when this transfer is carried out in favour of a child, a grandchild or a great-grandchild living in Canada.

DONATE

If you have not already done so, now is an ideal time to reconsider your donation plans for 2011 and benefit from the charitable donations tax credits.

Another very interesting tax strategy, for both you and the charity, is to donate publicly traded company shares from your portfolio, especially if these shares include a significant gain. In fact, no income tax is payable on a capital gain realized when shares of a public listed company are donated to a charitable organization (including private foundations, since March 19, 2007). Under these circumstances, the charity receives a larger amount than it would if you

Travel and Automobile Allowance

The Income Tax Act provides that allowances which are not in excess of reasonable amounts, in respect of travelling and motor vehicle expenses incurred in the performance of the duties of an office or employment, are not required to be included in computing the income of an individual from that office or employment.

were to sell the shares and donate the proceeds after paying taxes on the gain.

REPAY SHAREHOLDER LOANS

If you took a loan from your corporation in 2010, repay it before the end of 2011. If you delay, the full amount of the loan will be added to your income for 2010. An exception is available if the loan was made to an employee-shareholder for purchasing a residence, securities issued by the employer, or a car for work purposes. Other restrictions apply to these types of loans, however.

DECLARE A BONUS

The small business tax deduction (SBD) is available to Canadian-controlled private corporations with incomes less than \$500,000 in 2011. If the active business income derived from your company exceeds the \$500,000 threshold it would be good tax planning for the corporation to pay out a bonus to bring its income below the threshold. Your company will be able to claim the tax deduction as long as the bonus is paid within 180 days of your corporation's fiscal year-end.

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VISIT US

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www.levifca.com

TAX & BUSINESS ALERT has been prepared by LEVI & SINCLAIR, LLP for the general information of our clients, staff and other interested parties. The enclosed comments are of a general nature and are not intended to cover all aspects of the subject matter. Prior to implementing any planning based upon information in this publication, the specific facts pertaining to any particular situation should be carefully considered. We will be pleased to assist in this regard and to provide further details pertaining to the matters discussed herein.

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MAKE CERTAIN DISBURSEMENTS BEFORE THE END OF THE YEAR

Some deductions and credits can only be claimed if the amount was disbursed before the end of 2011. This is the case for charitable donations, child support (if deductible), childcare expenses, interest on loans for investment purposes, tuition fees, and union and professional dues.

MAKE YOUR DECEMBER INSTALLMENT

Individuals who are required to make quarterly installments should review the amounts paid, to avoid or reduce the non-deductible interest charged on late or deficient installments (which can be onerous).

If you are required to pay your income taxes in installments and estimate that your 2011 income will be significantly less than it was in 2010, decrease the amount, if you have not already done so, of your December 15, 2011 installment. However, be careful when making this estimate: if your actual income in 2011 is higher than expected, you could be required to pay interest that is not tax-deductible.

TIMING OF ACQUISITION OF ASSETS

Accelerate the acquisition of depreciable property used in carrying on a business otherwise planned for the beginning of the next year. This will allow additional depreciation to be available to be claimed in the current year. The “available-for-use rules” should be considered (generally requiring the depreciable property to be used in operations for the depreciation deduction to be allowed). This will also allow full capital cost allowance deduction in 2012.

Consider delaying until the subsequent year the acquisition of depreciable property in a class that would otherwise have a terminal loss.

REGISTERED EDUCATION SAVINGS PLAN (RESP)

Under a RESP, contributions are made to the plan, intended to pay for the post-secondary education of designated beneficiaries, usually the taxpayer’s chil-

DEDUCTING HOME OFFICE EXPENSES

If you are self-employed, or run your own sideline business and have an office in your home, you may be able to deduct expenses relating to that office. For home office expenses to be deductible, the office must either be your principal place of business, or be used exclusively to earn business income and be used on a regular and continuous basis for meeting clients, customers, or patients.

However you cannot increase or create a loss by deducting home office expenses. Any excess is not lost since it can be carried forward.

dren or grandchildren. Although contributions are not tax-deductible, income earned in the plan is not taxable until distributed, at which time it is taxed in the hands of the beneficiary.

The accumulated income is forfeited where the beneficiary (ies) does (do) not undertake post-secondary education. However, certain plans allow the substitution of other children, grandchildren, nephews/nieces and even non-related persons.

KEEP YOUR TRANSIT PASSES

Individuals can claim a non-refundable tax credit for monthly or longer-duration public transit passes in their federal tax return.

HOME BUYERS PLAN

Any individual who has withdrawn money from their RRSP under the home buyers plan, **MUST** make a minimum annual contribution to their RRSP of 1/15 of the amount withdrawn or that amount will become taxable in the year no payment is made.

If you have taken advantage of the Home Buyers Plan, the first repayment is due the second year following the year in which you made your first withdrawal.

U.S. CITIZENS IN CANADA

A U.S. citizen resident in Canada must file Canadian and U.S. income tax returns, reporting their world-wide income. These tax returns should usually be prepared by a competent professional advisor due to the complicated inter-tax credits.



CANADIANS VACATIONING IN THE U.S.

Canadians who spend on average more than 120 days a year in the United States run the risk of being considered a U.S. resident for U.S. tax purposes. If you are caught under the specific rules, but have spent less than 183 days in the U.S. in the current year, the "Closer Connection Exemption" may apply. The exemption is claimed by filing IRS form 8840 on a timely basis, generally by June 15 of the following year. Please contact your tax advisor for more details.

POLICY FOR GIFTS AND AWARDS - 2010 AND LATER YEARS

As of January 1, 2010, the Canada Revenue Agency (CRA) is changing the policy for gifts and awards as taxable benefits, removing the limit on the number of tax-free non-cash gifts and awards an employer may give an employee in a year, and creating a single \$500 exemption that an employer can apply against the total value of all the non-cash gifts and awards given to an employee. If you give gifts and awards with a total value of \$650, there is a taxable benefit of \$150 (\$650-\$500).

US Citizens Wherever You Are

The Bank Secrecy Act may require you to report yearly to the Internal Revenue Service by filing Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts (FBAR).

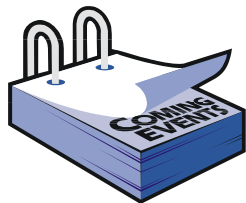
United States persons are required to file an FBAR if:

- The United States person had a financial interest in or signature authority over at least one financial account located outside of the United States; and
- The aggregate value of all foreign financial accounts exceeded \$10,000 at any time during the calendar year to be reported.

United States person means United States citizens; United States residents; entities, including but not limited to, corporations, partnerships, or limited liability companies created or organized in the United States or under the laws of the United States; and trusts or estates formed under the laws of the United States.

The FBAR is not filed with the filer's federal income tax return. You may not request an extension for filing the FBAR. The FBAR must be received by the IRS on or before June 30 of the year following the calendar year being reported.

Consult your tax advisor for more information concerning the need to file FBAR reports.



ALERT DATES

December 15, 2011	Final installment due for individuals required to make income tax installments.
February 28, 2012	Deadline for filing 2011 remuneration slips to employees (T4/R1) and independent sales representatives (T4A/R1), slips for payments of dividends and interest (T5/R3); including related summaries to the respective governments.
March 1, 2012	Deadline for 2011 contributions to an RRSP.
March 15, 2012	First personal income tax installments for 2012 are due.
March 31, 2012	Deadline for filing trust income tax returns for trusts with a December 31, 2011 year end. Filing date for T-5013 of partnerships.

CRA ANNOUNCES NEW POLICY ON KEEPING TRAVEL LOGBOOKS

The CRA has announced a new simplified logbook for motor vehicle expense provisions for business owners. The new logbook is intended to simplify record keeping and reduce paperwork while still providing the appropriate data to the CRA for both income tax and GST/HST purposes.

LOGBOOK FOR A SAMPLE PERIOD

The CRA indicates that they would be prepared to afford considerable weight to a logbook maintained for a sample period as evidence of a full year's usage of a vehicle if it meets the following criteria:

- The taxpayer has previously filled out and retained a logbook covering a full 12-month period that was typical for the business (the "base year"). The 12-month period is not required to be a calendar year. (See our website newsletter section for a sample logbook— www.levifca.com)
- A logbook for a sample period of at least one continuous three-month period in each subsequent year has been maintained (the "sample year period").
- The distances travelled and the business use of the vehicle during the three-month sample period is within 10 percentage points of the corresponding figures for the same three-month period in the base year (the "base year period").
- The calculated annual business use of the vehicle in a subsequent year does not go up or down by more than 10 percentage points in comparison to the base year.

The business use of the vehicle in the subsequent year will be calculated by multiplying the business use as determined in the base year by the ratio of the sample period and base year period.

The formula for this calculation is as follows:

$$\frac{\text{Sample year period \%}}{\text{Base year period \%}} \times \text{Base year annual \%} = \text{Calculated Annual}$$

Where the calculated annual business use in a later year goes up or down by more than 10%, the base year is not an appropriate indicator of annual usage in that later year. In such a case, the sample period logbook would only be reliable for the three-month period it had been maintained.

In these circumstances, the taxpayer should consider establishing a new base year by maintaining a logbook for a new 12-month period.

MANDATORY INFORMATION RETURNS— ELECTRONIC FILING

Starting January 2010, if you submit more than 50 original information returns (slips), you will be required to file electronically using the Internet? This means that if you previously filed returns on paper, DVD, CD, or diskette, you must now file over the Internet.

EI PREMIUM INCREASE FOR 2011 AND SUBSEQUENT YEARS

Employment Insurance premiums will be limited to five cents per \$100 of insurable earnings for 2011 and 10 cents per \$100 for subsequent years

WILLS

Wills should be reviewed and updated on a periodic basis, taking into consideration changes in financial position and legislation.

ABOUT LEVI & SINCLAIR

LEVI & SINCLAIR is a firm of chartered accountants that traces its origin in Montreal to 1970. We pride ourselves on being more than just an accounting firm. We offer an effective blend of personalized service, experience and technological leadership, coupled with a steadfast commitment to consistently deliver excellence. The members of our firm possess unique talents, expertise and experience, giving our clients access to a knowledge base of considerable breadth and depth.

OUR SERVICES

Our firm takes pride in adding value to every client that we serve through our extensive expertise and proactive approach to your financial needs. We match our dedication to adding value with experience and expertise: we have experience in servicing virtually every type of industry and professional practice.

FORENSIC AUDITING AND LITIGATION SUPPORT SERVICES

Our firm has developed an expertise in both litigation support and international service. Our highly trained staff are licensed world-wide to perform investigative and forensic audits and have achieved international recognition for their innovations particularly in the field of computer forensics. Our forensic department has been called upon by law enforcement agencies as well as the public and private sectors for assistance in the most complex and difficult of situations in Canada, the United States and the Caribbean.

TAXATION

Our office has a strong basis in federal and provincial tax issues. Our accountants work hard to minimize your taxes, yet make sure that you fulfill your tax requirements ethically while working to add value. We can fill a variety of tax needs, both domestic and international as well as corporate and personal.

FINANCIAL

LEVI & SINCLAIR can meet all of your basic financial needs with our exemplary Accounting Services Group that can truly add value whether it's your business or your personal finances that we are reviewing. We work with business entities as well as non-profits and foundations. Our accounting services include; auditing and compilation review of financial statements, budgets and forecasts, and government reporting. We won't simply process your financial statements, our mission is to add value. We will go the extra mile to help you forecast or locate opportunities that you may be missing.

BUSINESS CONSULTING

LEVI & SINCLAIR's Business Consulting unit has proven itself as a valuable resource to businesses of all kinds. We can help you plan your future, whether you see it coming or not. We can help you bring seminal business events to life; like mergers and acquisitions, business valuation, leases and contracts, or business development plans, all of which take a huge amount of planning and attention to detail. If there are no big events on your horizon, we can still be of service by helping you to anticipate the unexpected through our forecasting, real estate projections, risk management assessments, or our feasibility studies. We look at your business and all of its many facets, to find both issues and opportunities and bring that valuable insight to you.

LITIGATION SUPPORT AND DISPUTE RESOLUTION SERVICE AREAS

- **Civil and criminal Fraud Investigation**
- **Management and employee fraud and theft**
- **Identification of secret commissions and kickbacks**
- **Intellectual Property Litigation Support**
- **Training on fraud awareness and prevention**
- **Due Diligence Audits**
- **Business valuation**
- **Fairness opinions**
- **Insurance claim assistance**
- **Retail sales audits**
- **Contract dispute resolution**
- **Professional negligence litigation support**
- **Fraud prevention program design, implementation and evaluation**
- **Bank due diligence audits**
- **Employee background audits**
- **Financial discrepancy analysis**
- **Divorce litigation support**
- **Insurance claim quantification**
- **Breach of contract quantification**
- **Electronic Discovery and Data Recovery**
- **Computer forensics**

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